

# PeerIQ Research: A Survey of US Treasury RFI Submissions

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## Introduction

In July 2015, the US Treasury Department (“UST”) issued a request for information (“RFI”) to market participants on the rapidly growing marketplace lending industry. UST solicited input on a broad range of topics related to credit extension, consumer protection, data & privacy, capital markets issues, regulatory matters, and alignment of interests.

Over a hundred market participants submitted responses. Multiple segments of the market were represented including loan origination platforms, bank associations, agent banks, institutional investors and service providers. Views presented were varied and have sparked considerable debate.

The goal of this survey is to aggregate and summarize both leading and novel views presented on topics of most interest to institutional investors. Such topics include:

- Whether there is a **level playing field** between banks and marketplace lenders, and the **need for more (or less) regulatory oversight**;
- The role (and how to encourage) **transparency**;
- The rise of **securitization** and its impacts;
- **Risk retention** as a means of alignment; and
- The potential for robust **secondary markets**.

We note at the outset that we narrowed the scope of our survey not only to the topics above, but also to the set of submissions we deemed most relevant (a full list of included Comments is provided on Schedule A). We then consolidated the responses by group segment for a comparison within and across key participant segments (see Schedule B).

While our survey is not intended to serve as a comprehensive review of all submissions, we nonetheless see value in a consolidated, side-by-side analysis to advance this important industry discussion.

## Key Findings

- **We saw strong consensus on the overarching benefits of active securitization markets.** Comments specifically cited the ability of the ABS market to diversify and drive down funding costs:
  - The Structured Finance Industry Group suggested making securitization terms more uniform to enhance transparency.
  - A robust secondary ABS market was consistently viewed as a means of broadening access and creating liquidity. There are differing views on the timing, structure, and need for a secondary whole loan market.
  - Uncertainty created by the decision reached in the *Madden v. Midland Funding, LLC* case may dampen the growth of marketplace loan securitizations.
- **Comments universally stood against capital-based risk retention requirements.** Certain participants explained that under the statutory intent of Dodd-Frank, ABS sponsors (rather than originators) assume risk retention obligations as a method of aligning interest with ABS buyers.
- **Numerous marketplace lenders are committed to display loan level data and maintaining high standards of transparency.** Lending Club raised the bar on transparency by suggesting that regulators mandate loan level disclosure.
- **Comments introduced several novel ideas and mechanisms for regulator consideration.**
  - SoFi and the Milken Institute proposed establishing a uniform regime through a national marketplace lending charter.
  - Lending Club proposed creating tax breaks for investors who provide capital to underserved consumers and SMEs.
  - PeerIQ suggested that UST consider the viability of consortium-led, private or public data repositories for ABS loan data.

## Major Topics of Discussion

### 1. Is there a level playing field? Is there a need for more or less regulation?

A key topic of inquiry was whether there is a level-playing field for all lenders, including whether the current regulatory regime benefits marketplace lenders over traditional banks.

Insikt and PeerIQ noted that Basel III capital set-aside requirements have discouraged banks from extending consumer credit. In response, marketplace lenders are filling the gap and have “spurred the proliferation of non-bank lenders and created positive innovation in the space.”<sup>1</sup>

- *Several bank trade associations argued that the overall level of regulation is too high, and that banks face a higher regulatory burden than marketplace lenders*

The National Association of Federal Credit Unions offered a nuanced view arguing that the overall level of regulation is high, but within that context, they argued that marketplace lenders have fewer regulatory burdens as compared to banks:

While NAFCU firmly believes the regulatory pendulum has swung too far since the passage of *Dodd-Frank Act*, we have long supported the intent and protections captured in the consumer lending laws, such as *Truth in Lending Act (TILA)*. Online lenders, however, are not subject to these important consumer protection laws. As such, online lenders are often able to operate more quickly and with fewer compliance costs.<sup>2</sup>

Several bank trade associations, including the American Bankers Association and the Consumer Bankers Association, argued for additional regulation or scrutiny of marketplace lenders and non-banks.<sup>3</sup> They noted that “currently alternative lenders have little regulatory oversight and typically only see examinations in response to consumer complaints.”<sup>4</sup> The National Association of Industrial banks stated that “regulatory reform is urgently needed to encourage the development of banks and equalize the regulatory burden on all lenders.”<sup>5</sup>

**More to the story:** Though bank trade associations are calling for increase regulatory scrutiny on marketplace lenders, there is a growing track record of collaboration between banks and online lending platforms, exhibiting the value that each brings to expanding greater credit access.

By way of example, community banks have struck a number of partnerships with leading marketplace lenders:

- Members of BancAlliance, a national consortium of about 200 community banks, formed a partnership program with Lending Club, designed to give community banks and their customers access to Lending Club’s low-cost of operations platform.<sup>6</sup>
- Prosper announced a similar partnership with Western Independent Banks which represents more than 160 independent and community banks.<sup>7</sup>

Additionally, large global banks have struck a range of partnerships with various platforms:

- Citibank Community Capital, which is responsible for providing community development loans which receive consideration under the Community Reinvestment Act, is partnering with Lending Club and Varadero Capital L.P to facilitate up to \$150 MM in loans.<sup>8</sup>
- JP Morgan Chase & Co. is participating in a funding round with Avant.<sup>9</sup>

Large banks including Morgan Stanley, Goldman Sachs, Credit Suisse, and Citibank are also providing credit facilities and arranging equity financings for marketplace lenders.

- *Marketplace lenders pointed to the comprehensive regulatory regime under which they currently operate*

Lending Club and Prosper presented the case that marketplace lending platforms are subject to comprehensive regulation, including significant oversight by bank regulators.

Prosper, for example, noted compliance obligations under the following laws:

- Dodd-Frank Wall Street Reform and Consumer Protection Act
- Truth in Lending Act
- Equal Credit Opportunity Act
- Fair Credit Reporting Act
- Servicemembers Civil Relief Act
- Electronic Fund Transfer Act
- Electronic Signatures in Global and national commerce Act/Uniform Transactions Act
- Privacy and data security laws
- Bank Secrecy Act
- Federal and State debt collection laws, following best practices even when these laws are not technically applicable; and
- Federal and state securities laws.<sup>10</sup>

Marketplace lenders also pointed out that bank partnerships (like those described above) increase the set of regulatory obligations marketplace lenders must abide by. CAN Capital noted that bank partnerships “enhance and expand regulatory supervision of marketplace lending.”<sup>11</sup>

Further, numerous comments posited that while the technological innovation is new, from a regulatory perspective, marketplace lending activity is already covered under existing law. Leading marketplace lending platforms originate in partnership or as service providers to FDIC-insured agent banks.

WebBank noted that “from a regulatory perspective, the origination of [marketplace] loans does not break new ground.”<sup>12</sup>

Indeed, this is a business in which WebBank (and other banks) have been engaged for many years. It is a model used for credit card lending, mortgage lending, student lending, private label financing, and other credit platforms.<sup>13</sup>

Underwriters’ trade association Structured Finance Industry Group (“SFIG”) concurred:

“Marketplace platforms have not, to date, created new asset classes.... We strongly caution that any attempt to create new regulations targeted solely at this market may, in fact, have the undesirable result of stifling innovation and growth, potentially limiting access to and availability of credit for consumers and small businesses.”<sup>14</sup>

- *Marketplace lenders uniformly argued that regulation would stifle innovation*

The potential for new regulation to stifle innovation was a common refrain across submitted Comments. OnDeck noted that:

[I]t would be premature and potentially harmful to small-business owners if additional regulation were imposed to codify particular lending models or credit products at this early stage of industry development.<sup>15</sup>

Avant stated that additional regulation would “stifle innovation, growth and consumer choice.”<sup>16</sup>

As we noted in our comment, we second the notion that additional regulation that might convert marketplace lenders into banks would curtail the pace of innovation and investment in the category by raising the regulatory and capital costs of doing business.

- *The need for regulatory consistency and a comprehensive framework*

The Milken Institute argued that:

Current non-bank regulation has not kept up with technological and business innovation. While marketplace lenders could apply for bank charters and become banks, a bank charter is excessive and unnecessary if marketplace lenders want to focus exclusively on lending.<sup>17</sup>

They went on to propose a new uniform regulatory regime that provides clarity, enables marketplace lenders to innovate without artificial or inefficient structures, and allows for innovation and entry into the market on a level playing field; and suggested a national lender charter governing the activities and responsibilities of marketplace lenders.

## 2. What is the role for transparency? How should it be fostered?

Transparency, a focal point in many of the comments, discussed in multiple ways: (i) clarity to borrowers on APR rates (e.g., avoidance of hidden fees or confusing terms), and underwriting processes; (ii) loan-level performance data made available to investors; and (iii) loan-level data made available to ABS investors.

- *Lending Club suggested regulators mandate loan-level disclosure*

Marketplace lenders have stressed that they provide loan level data, thereby driving transparency. Lending Club offered:

We provide full transparency by posting on our website the performance of every loan offered publicly since inception, as well as equal access and a level playing field with the same tools, data, and access for all investors, small and large.<sup>18</sup>

Lending Club raised the bar on transparency by arguing that “it would be a productive development, and would ensure continued investor protection, for the SEC or other regulators to mandate these loan-level disclosure requirements to Lending Club and other credit marketplaces.”<sup>19</sup>

- *Platforms and investors support clear communication of APRs and lending terms to borrowers*

Institutional investor Blue Elephant noted that “regulators should take a hard look at any platform that does not disclose the rate being charged — these lenders are likely to harm less savvy borrowers.”<sup>20</sup> The majority of marketplace lenders agreed. Bond Street pointed out that “among other steps, all lenders should be required to publicly post the average APR they charge.”<sup>21</sup>

- *Respondents support greater resolution into loan-level ABS data*

While respondents observed steady growth in marketplace lending ABS and expect this trend to continue, interestingly we note that all marketplace loan securitizations, to date, have been privately placed. Privately placed securitizations have less onerous

reporting and disclosure obligations which reduces costs of investors and issuers alike.

Reg. AB II, which requires additional disclosure and reporting obligations for SEC registered securitizations, does not apply in private placements. SFIG, PeerIQ, and market participants support a common service to promote transparency and liquidity in privately-placed ABS.

For example, Insikt called for further transparency by suggesting that Reg AB II be broadly applied to debt securities in addition to equity securities, thereby allowing non-accredited investors to invest in marketplace loan securitizations.<sup>22</sup>

PeerIQ pointed to the European DataWarehouse as an example of one method to promote loan-level transparency and liquidity (particularly in Rule 144 ABS), and is working with industry participants to provide a similar service.<sup>23</sup>

SFIG also indicated support for performance transparency into privately placed ABS:

SFIG investor members believe disclosure as to performance of such assets should be no less than that required by Regulation AB II (whether or not Regulation AB II is applicable to a particular transaction).<sup>24</sup>

## 3. How do we foster an efficient, responsible securitization market?

Within our set of selected responses, we found strong support for securitization markets. Of note, SFIG remarked:

The securitization of marketplace loans provides...an efficient means for many institutional investors to diversify their exposures. On the same basis, securitization provides marketplace platforms with access to institutional funding sources that would otherwise not be available.<sup>25</sup>

The National Association of Industrial Banks stated:

The securitization markets play a highly beneficial role for both lenders and investors. The loan seller

has a cost effective funding source and investors gain income producing assets.<sup>26</sup>

SIFMA pointed out that securitization markets enable originators and servicers “to better and more accurately price the risks of their loans and that the discipline of securitization reporting helps them to run a better business.”<sup>27</sup>

Certain respondents, such as SoFi and CAN Capital, explained how they have efficiently availed themselves of securitization markets (we note that Avant, Prosper, Insikt and other platforms have as well).

#### 4. What is the role for risk retention?

As one might expect, marketplace lending originators and underwriters were united in opposing new risk retention requirements.

The underwriting community, as expressed through comments from trade associations SFIG and SIFMA, has pointed to the statutory intent of Dodd Frank to ensure that aggregators (ABS sponsors) hold risk retention obligations. SIFMA has argued that imposition of risk retention on intermediate holders that are not themselves securitizers (like many marketplace lenders) would impair efficiency.<sup>28</sup>

SoFi noted that “new risk retention requirements should not be instituted until the impact of the current regime is assessed.”<sup>29</sup> Earnest concurred and further stated that:

It would be premature to immediately require any type of risk retention in a segment that is so new, so small that is undergoing rapid change and while it still remains unclear whether or not the existing Dodd Frank risk retention requirements are applicable to certain marketplace lending segments or products. Such a requirement, applied prematurely, might restrict innovation, create perverse incentives for marketplace lenders and borrowers, and put the government’s thumb on the scale in favor of certain market participants/models without first identifying a specific problem that a risk-retention requirement would be solving.<sup>30</sup>

Avant added a principled argument to the conversation by recognizing:

[T]he United States typically encourages open markets and market forces ultimately should work to answer the question of whether “skin in the game” is required. Demand from investors for loans originated through platforms which do not retain an interest in any loans should dictate whether credit risk retention is required.<sup>31</sup>

- *Institutional investors against originator risk retention*

Interestingly, although certain respondents called for further regulation of marketplace lending in general, none expressly called for the introduction of risk retention in connection with the securitization of marketplace loans.

Risk retention is seen as a tool to align interests with investors. Therefore, the perspective of institutional investors, like that of investor Godolphin, is particularly notable:

Investors who are purchasing assets from these platforms should be the ones providing risk-retention in the event they wish to securitize these loans, to ensure financial discipline and align their interests with the senior debt buyers. In other instances, there should be no requirement of risk retention and parties should be able to rely on contract law.<sup>32</sup>

Blue Elephant Capital Management, an active aggregator and securitizer, added

We do not believe that “skin in the game” models are superior to models where loans are sold in their entirety. Unlike banks that have sticky capital in the form of deposits, marketplace lenders are reliant on a broad spectrum of investors to raise their capital. This is their “skin” – if they lose support of their investor base, they effectively fail to function as a business. Forcing a platform to hold loans will not necessarily make them a better lender.<sup>33</sup>

Lending Club pointed out that other mechanisms to drive alignment include direct revenue incentives related to servicing and management fees.

SFIG expressed that standardization and transparency could further proper alignment across participants, calling for the following:

- Clarity of reporting;
- Ongoing portfolio performance reporting;
- Common reps, warranties, repurchase and indemnity provisions;
- Due diligence of aggregators asset underwriting and asset selection; and
- Review and enforcement mechanics.<sup>34</sup>

#### Other methods for driving alignment?

Transparency is a mechanism for driving accountability. Publishing loan origination and loan performance invites a high degree of public scrutiny. Institutional investors can compare and benchmark marketplace lenders to other sources of credit risk.

Marketplace lenders are subject to market discipline by sophisticated institutional investors that do not have the obligation to fund loans originated by marketplace loans each day. If marketplace lenders produce loans that do not satisfy the risk-adjusted return expectations of institutional investors, such institutional investors can walk away. As a result, marketplace lenders offer investors significant transparency and are building brands associated with responsible credit extension.

Additionally, institutional investors have other mechanisms to drive accountability. For example, investors or ABS sponsors negotiate forward flow agreements, as well as representations and warranties. This is a market-driven mechanism for binding marketplace lenders to specific obligations that is flexible to the needs of both parties and market conditions.

In our view, requiring marketplace lenders to retain credit risk would force a significant business model shift, and prematurely select winners and losers not via their origination/underwriting core competencies, but rather by their ability to attract lower cost capital on balance sheet.

## 5. Secondary Markets (Whole loan and ABS)

Lend Academy indicated that “one of the challenges for a fully functioning secondary market for institutional investors is that it is not a high priority for most of the main players.”<sup>35</sup>

Orchard Platform, on the other hand, stated that:

Many larger institutional investors are hesitant to invest in loans if the only meaningful option is to lend-and-hold, and a secondary market will facilitate both greater liquidity and more meaningful price discovery, which will have a number of salutary effects.<sup>36</sup>

They also noted that “anything that the federal government can do to encourage and allow for the development of a fully functioning secondary market is welcome.”<sup>37</sup>

Investor Godolphin added that “[a]n active secondary market for loans would be beneficial in that it would allow for more accurate mark-to-market of loan portfolios.”<sup>38</sup>

Several respondents pointed to the ABS market as a means of creating and accessing secondary market liquidity. SIFMA remarked that “An active secondary [ABS] market would enable more marketplace loans to be originated and funded.”<sup>39</sup>

Lending Club commented that:

Holders of Trust Certificates do not currently have a secondary market option while institutional investors in loans are able to access a secondary market through securitization. Currently, all of Lending Club's institutional investors purchase loans or trust certificates with the intention to hold the loans to maturity. The secondary market is not critical for the institutional investors on Lending Club's platform but could ultimately lower return thresholds for investors and allow for further savings to borrowers.



### Opportunities and challenges with secondary whole-loan markets?

Today, there is virtually no secondary market liquidity. Retail investors have access to limited liquidity (to limited volumes) via FoliInvesting.

A secondary market can create liquidity and price discovery for investors. There is no standardized valuation methodology for loans and a secondary market would enable Net Asset Value pricing.

One challenge for a secondary market is that the loan size is relatively small. Institutional investors are accustomed to exchanging larger-sized pools of risk via secondary market transactions in the ABS market rather than one-off loans.

Another challenge to a secondary market is that no two loans represent the same credit risk or will generate the same path of cash flows. Therefore, loans are not fungible within grade and each loan must be priced separately. There are possible solutions to creating a secondary market, however, the idiosyncratic nature of the risk increases the complexity of creating a liquid secondary whole loan market.

Key building blocks toward a robust secondary market include execution, settlement and clearing infrastructure, downstream trade management infrastructure, establishment of standardized trade protocols, independent third party credit risk assessment of loans, and resolution of certain legal and regulatory issues.

## 6. Other novel ideas warrant consideration

The RFI elicited numerous bold, novel ideas. While PeerIQ does not endorse any particular idea, we highlight a number of interest below:

- The Milken Institute suggested a national lending charter for marketplace lenders defining their scope and permissible activities. Additionally, regulation would provide “guidance and safe harbors regarding the use of data to help them avoid inadvertent discrimination while allowing

them to confidently pursue valid, accurate, and innovative risk pricing models.”<sup>40</sup>

- SoFi suggested that regulators assess the feasibility of establishing a uniform regulatory regime through a national charter allowing marketplace lenders to compete on a level playing field with banks.
- Lending Club suggested creating tax breaks for investors who provide capital to underserved areas and to small-business owners who have low or moderate incomes (tax breaks for investors in marketplace loans have been afforded to taxpayers in the United Kingdom).
- Lending Club suggested the Internal Revenue Service provide tax data available through an API to expedite loan underwriting.
- PeerIQ pointed to the viability of consortium led, private or public data repositories for marketplace loan-level ABS data.
- SFIG suggested that disclosure on performance of marketplace lending ABS should be no less than that required by Regulation AB II.

## Conclusion

While there are diverging views on the need for more or less regulatory oversight over marketplace lending, views on securitization markets remain uniformly positive. Transparency is clearly a focal point: several participants suggested the industry self-police and raise the bar on transparency beyond what is required by existing regulation.

Moreover, underwriters, investors and marketplace lenders appear to share views on opposing originator risk retention.

Numerous novel ideas were presented for regulators’ consideration, and whether regulators will consider or adopt any of these ideas as marketplace lending capital markets continue to grow remains to be seen.

Participants interested in PeerIQ’s response to these matters can find our views [here](#). We welcome any feedback.



**SCHEDULE A: RESPONSE SEGMENTS**

<b>PARTICIPANT (BY SEGMENT)</b>	<b>LINK TO SUBMISSION TO US TREASURY RFI</b>
<b>Marketplace Lenders</b>	
Avant	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0075">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0075</a>
Bond Street	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0072">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0072</a>
CAN Capital	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0039">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0039</a>
Common Bond	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0021">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0021</a>
Earnest	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0077">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0077</a>
Funding Circle	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0081">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0081</a>
Lending Club	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0077">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0077</a>
OnDeck	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-004">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-004</a>
Prosper	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0076">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0076</a>
SoFi	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0050">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0050</a>
<b>Investors</b>	
Blue Elephant	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0016">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0016</a>
Insikt	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS">http://www.regulations.gov/#!documentDetail;D=TREAS</a>
Godolphin	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0020">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0020</a>
GLI Finance	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0019">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0019</a>
<b>Agent Banks</b>	
Cross River bank	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0083">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0083</a>
Web Bank	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0078">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0078</a>
<b>Underwriter &amp; Investor Trade Associations</b>	
Securities Industry and Financial Markets Association	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0038">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0038</a>
Structured Finance Industry Group	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0079">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0079</a>
<b>Bank Trade Associations</b>	
American Bankers Association and Consumer Bankers Association	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0041">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0041</a>
National Association of Federal Credit Unions	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0010">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0010</a>
National Association of Industrial Banks	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0061">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0061</a>
<b>Service Providers</b>	
Lend Academy	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0063">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0063</a>
Orchard	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0031">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0031</a>
PeerIQ	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0096">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0096</a>
<b>Other</b>	
Milken Institute	<a href="http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0023">http://www.regulations.gov/#!documentDetail;D=TREAS-DO-2015-0007-0023</a>

**SCHEDULE B: DIGEST OF VIEWS BY RESPONSE SEGMENT**

Need for New Regulation	Views on Transparency	Views on Risk Retention	Assessment of Secondary Markets (Including Securitization Markets)	Novel Ideas
<b>Marketplace Lenders</b>				
<p>Current regulation of marketplace lending is sufficient.</p>	<p>Transparency drives accountability and alignment with investors.</p> <p>Lending Club suggested mandating loan-level disclosure.</p>	<p>Not needed at originator level.</p> <p>Bond Street noted that marketplace lenders “that do not take balance sheet risk still live and die by the quality of their loans.”<sup>41</sup></p>	<p>Lending Club noted that the institutional investors prefer to hold loans to maturity.<sup>42</sup></p> <p>The securitization of marketplace loans will help drive down the cost of funds for investors.</p>	<p>SoFi and the Milken Institute suggested that regulators assess the feasibility of establishing a uniform regulatory regime through a national charter allowing marketplace lenders to compete on a level playing field with banks.<sup>43</sup></p> <p>Lending Club proposed creation of tax breaks for investors who provide capital to so-called underserved areas and to small-business owners who have low or moderate incomes.<sup>44</sup></p> <p>Funding Circle indicated that the federal government could encourage financial institutions to more diligently contribute commercial credit information to credit bureaus under the premise that access to more robust loan performance data would enhance lenders’ ability to provide affordable credit.<sup>45</sup></p>
<b>Agent Banks</b>				
<p>Web Bank pointed out that current regulation of marketplace lending is sufficient.<sup>46</sup></p>	<p>Cross River bank notes that “if the [secondary market develops] further, additional standardization and protocol will be necessary to create much needed transparency.”<sup>47</sup></p>	<p>Cross River bank noted that there are substitutions for risk retention (e.g) maintaining ongoing, non-economic interests in the loans, such as continued servicing by an originator.<sup>48</sup></p> <p>Cross River bank also pointed to the distinction between the mortgage market and the marketplace loan market in terms of loan duration in evaluating these risks.<sup>49</sup></p>	<p>Cross River bank pointed out that “a strong securitization market is needed to enhance liquidity for banks and other market participants. Further development and additional secondary market enhancements will largely be dictated by growth of overall market and government/regulatory support for both the broader securitization industry as well as the securitization of marketplace assets.”<sup>50</sup></p> <p>Cross River bank also noted that “the Federal government should promote standards for securitization of these assets to promote a liquid and efficient secondary market for marketplace lending loans to, in turn, expand the availability of credit through the United States.”<sup>51</sup></p>	

Underwriters and Investors				
Current regulation of marketplace lending is sufficient.	<p>SFIG suggested transparency on privately placed securitization to the standard of Reg AB II.</p> <p>Several participants called for greater standardization.</p>	Existing risk retention requirements are satisfactory.	SIFMA noted that “an active secondary [ABS] market would enable more marketplace loans to be originated and funded. This would in turn allow more companies to enter the business, thereby increasing the competition among lenders in the marketplace. Increased competition would likely lower the borrowing costs for consumers at all credit levels, make more credit available to consumers and provide more product choice to consumers by increasing the variety of credit available to meet their needs. All of these factors would contribute to a healthy economy by keeping interest rates low and helping to ensure consumer access to credit.” <sup>52</sup>	
Community Banks/Thrifts/Credit Unions/ Industrial banks				
Further regulation of marketplace lending is advisable	The ABA and CBA indicated that “there are numerous bank consumer protections in place to protect borrowers, from transparency in pricing to fair collection methods and data protection.” <sup>53</sup>	Not expressed.	The NAIB noted that “the securitization markets play a highly beneficial role for both lenders and investors. The loan seller has a cost effective funding source and investors gain income producing assets.” <sup>54</sup>	
Service Providers				
Current regulation of marketplace lending is sufficient.	Transparency promotes alignment of interest, liquidity, and accountability for the industry	PeerIQ noted that “requiring marketplace lenders to retain credit risk would force a significant business model shift, and prematurely select winners and losers not via their origination/ underwriting core competencies, but rather by their ability to attract lower cost capital on balance sheet.” <sup>55</sup>	Orchard Platform offered: “Many larger institutional investors are hesitant to invest in loans if the only meaningful option is to lend-and-hold, and a secondary market will facilitate both greater liquidity and more meaningful price discovery, which will have a number of salutary effects.” <sup>56</sup>	PeerIQ suggested that the Department of Treasury consider viability of consortium led, private or public data repositories for marketplace loan data. <sup>57</sup>

## END NOTES

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- <sup>1</sup> See public comments of Insikt to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0106>. Also see public comments of PeerIQ to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0096>.
- <sup>2</sup> See public comments of NAFCU to the RFI available at <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0010>
- <sup>3</sup> See public comments of ABA and CBA to the RFI available at <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0041>.
- <sup>4</sup> *Id.*
- <sup>5</sup> See public comments of NAIB to the RFI available at <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0061>.
- <sup>6</sup> See Lending Club and Smaller Banks in Unlikely Partnership, Wall Street Journal, June 23, 2015, available at: <http://www.wsj.com/articles/lending-club-and-smaller-banks-in-unlikely-partnership-1435015121>.
- <sup>7</sup> See Prosper Partners with Over 160 Banks. Signs Exclusive Agreement with Western Independent Banks, Crowdfund Insider, Feb. 26, 2015, available at: <http://www.crowdfundinsider.com/2015/02/63442-prosper-partners-with-over-160-banks-signs-exclusive-agreement-with-western-independent-banks/>.
- <sup>8</sup> See Lending Club and Citi Team Up on Community Lending, PR Newswire, April 4, 2015, available at: <http://www.prnewswire.com/news-releases/lending-club-and-citi-team-up-on-community-lending-300065289.html>.
- <sup>9</sup> See Online Lender Avant Raises \$325 Million as JPMorgan Invests, BloombergBusiness, Sept. 29, 2015, available at: <http://www.bloomberg.com/news/articles/2015-09-29/online-lender-avant-raises-300-million-as-jpmorgan-invests>.
- <sup>10</sup> See public comments of Prosper to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0076>
- <sup>11</sup> See public comments of CAN Capital to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0039>.
- <sup>12</sup> See public comments of WebBank to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0078>
- <sup>13</sup> *Id.*
- <sup>14</sup> See public comments of SFIG to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0079>.
- <sup>15</sup> See public comments of OnDeck Capital to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0049>.
- <sup>16</sup> See public comments of Avant to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0075>
- <sup>17</sup> See public comments of Milken Institute to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0023>.
- <sup>18</sup> See public comments of Lending Club to the RFI available at: available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0077>
- <sup>19</sup> *Id.*
- <sup>20</sup> See public comments of Blue Elephant to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0016>.
- <sup>21</sup> See public comments of Bond Street to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0072>.
- <sup>22</sup> *Supra* nt. 1.
- <sup>23</sup> See public comments of PeerIQ to the RFI, *supra* nt. 1.
- <sup>24</sup> See public comments of SFIG to the RFI, *supra* nt. 16.
- <sup>25</sup> *Id.*
- <sup>26</sup> See public comments of NAIB to the RFI, *supra* nt. 9.
- <sup>27</sup> See public comments of SIFMA to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0038>.
- <sup>28</sup> *Id.*
- <sup>29</sup> See public comments of SoFI to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0050>.
- <sup>30</sup> See public comments of Earnest to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0077>.
- <sup>31</sup> See public comments of Avant to the RFI *supra*, nt. 3.
- <sup>32</sup> See Public Comments of Godolphin to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0020>
- <sup>33</sup> See public comments of Blue Elephant to the RFI, *supra* nt. 20.
- <sup>34</sup> See public comments of SFIG to the RFI, *supra* nt. 16.
- <sup>35</sup> See public comments of Lend Academy to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0063>.
- <sup>36</sup> See public comments of Orchard Platform to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0031>.
- <sup>37</sup> *Id.*
- <sup>38</sup> See public comments of Godolphin to the RFI, *supra* nt. 32.
- <sup>39</sup> See public comments of SIFMA to the RFI, *supra* nt. 27.
- <sup>40</sup> See public comments of Milken Institute *supra* nt. 17
- <sup>41</sup> See public comments of Bond Street to the RFI, *supra* nt. 21.
- <sup>42</sup> See public comments of Lending Club to the RFI, *supra* nt.18.
- <sup>43</sup> See public comments of SoFI to the RFI, *supra* nt. 30, also see public comments of Milken Institute *supra* nt. 17.
- <sup>44</sup> See public comments of Lending Club to the RFI, *supra* nt. 18.
- <sup>45</sup> See public comments of Funding Circle to the RFI available at <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0081>.
- <sup>46</sup> See public comments of Web Bank to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0078>.
- <sup>47</sup> See public comments of Cross River bank to the RFI available at: <http://www.regulations.gov#!documentDetail;D=TREAS-DO-2015-0007-0083>.
- <sup>48</sup> *Id.*
- <sup>49</sup> *Supra* nt. 47.
- <sup>50</sup> *Id.*
- <sup>51</sup> *Supra* nt. 47.
- <sup>52</sup> See public comments of SIFMA to the RFI, *supra* nt. 27.
- <sup>53</sup> See public comments of ABA and CBA to the RFI *supra*, nt. 7.
- <sup>54</sup> See public comments of NAIB to the RFI, *supra* nt. 9.
- <sup>55</sup> See public comments of PeerIQ to the RFI, *supra* nt. 1.
- <sup>56</sup> See public comments of Orchard Platform to the RFI, *supra* nt 36.
- <sup>57</sup> See public comments of PeerIQ to the RFI, *supra* nt. 1.